

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

CONTRACT ADMINISTRATION IN THE PACIFIC

Report No. 96-205

August 1, 1996

19991123 078

Department of Defense

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Acronyms

ACO	Administrative Contracting Officer
CAS	Contract Administration Services
DCMC	Defense Contract Management Command
DLA	Defense Logistics Agency
PROCAS	Process-Oriented Contract Administration Services



**INSPECTOR GENERAL
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August 1, 1996

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

**SUBJECT: Audit Report on Contract Administration in the Pacific
(Report No. 96-205)**

We are providing this audit report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all unresolved issues and monetary benefits be resolved promptly. As a result of management comments, we revised draft report Recommendations 1.a. and 1.b. to clarify our intent. In response to the final report, we ask that the Defense Contract Management Command comment on the revised recommendations and provide additional comments on the monetary benefits. We request that management provide comments by September 3, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Terry L. McKinney, Audit Program Director, at (703) 604-9288 (DSN 664-9288) or Mr. Ronald W. Hodges, Audit Project Manager, at (703) 604-9291 (DSN 664-9291). See Appendix I for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 96-205
Project No. 5CF-0022

August 1, 1996

Contract Administration in the Pacific

Executive Summary

Introduction. In November 1989, Defense Management Report Decision 916 (Decision 916) directed that the contract administration services structure within DoD be reorganized and that virtually all DoD contract administration services be consolidated into a single organization. In February 1990, as a result of Decision 916, DoD established the Defense Contract Management Command within the Defense Logistics Agency to provide contract administration services throughout DoD. DoD implemented the consolidation as part of an overall Secretary of Defense plan to realize substantial improvements and savings in the DoD acquisition process. Before the consolidation, contract administration services were divided among the three Military Departments and the Defense Logistics Agency. The consolidation required that DoD transfer administration of all contracts, except base support and other specifically exempted contracts, to the Defense Contract Management Command. Contract administration offices are responsible for ensuring that contract terms and conditions are met and that all regulations and statutes are followed. The Defense Contract Management Command established the Defense Contract Management Command-International (the International District) to provide policy and oversight for contract administration offices outside the United States. Of 736 personnel assigned to the International District as of September 1995, 167 (22.7 percent) personnel were assigned to 4 contract administration area offices in the Pacific. Of 5,028 contracts, with unliquidated obligations of \$2.9 billion, that the International District administered, the Pacific offices administered 531 (10.6 percent) contracts with unliquidated obligations of \$67 million (2.3 percent).

Audit Objectives. The overall audit objective was to determine whether DoD contract administration officials in the Pacific properly and effectively used contract administration resources, policies, and procedures. Specifically, we focused on whether contracting officers properly delegated contracts to the International District in accordance with Decision 916, and whether the International District effectively and efficiently used its resources. We also evaluated management controls that were applicable to the audit objectives.

Audit Results. Contracting officers generally delegated the administration of contracts in the Pacific to the International District in accordance with Decision 916. However, International District and Defense Contract Management Command officials did not take action in the Pacific to streamline contract administration services offices and to reduce overhead as Decision 916 required. As a result, the International District incurred excessive personnel and operating costs in the Pacific to administer contracts that were low in complexity and dollar value. By reducing contract administration offices in the Pacific, the Defense Contract Management Command could put at least \$13.5 million to better use during FYs 1996 through 2001. The Defense Contract Management Command management control program could be improved.

We identified a material weakness related to resource management in the Pacific (Appendix A). Recommendations in this report, if implemented, will provide Defense Contract Management Command and the International District with information necessary to make cost-effective decisions regarding future staffing levels. See Part I for a discussion of the audit results and Appendix G for a discussion of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Commander, Defense Contract Management Command, review and analyze work load and staffing of Pacific area offices to determine baseline staffing levels based on workload requirements. Using the results of that review, the Commander should streamline contract administration resources and eliminate contract administration services offices that may not be needed. We also recommend that the Commander establish management controls to verify that established baseline methods are used when determining future staffing levels. We recommend that the Commander, Defense Contract Management Command-International, develop and issue a standard methodology and management controls for reporting management information system data. We also recommend that the Commander provide instruction to avoid duplicative quality assurance surveillance and source inspections.

Management Comments. The Defense Logistics Agency agreed to develop baseline staffing levels for International District area offices and to establish management controls on the development of future resource requirements using the Defense Contract Management Command Resource Utilization Council. The Agency agreed to streamline contract administration resources by developing a staffing model for International District area offices. The Agency also agreed to issue a standard methodology and management controls for reporting management information system data and to issue instructions to avoid duplicative quality assurance surveillance and source inspections. Most corrective actions either were completed or would be completed by September 1996. The Defense Logistics Agency did not respond to the recommendation to eliminate contract administration services offices. The Agency disagreed with our estimated monetary benefits but did not provide an alternative estimate. See Part I for a summary of management comments and Part III for a complete text of management comments.

Audit Response. Although the Defense Logistics Agency generally agreed with our recommendations, we believe some confusion exists on the establishment of baseline staffing. Regarding the recommendations to review and analyze work load and staffing at Defense Contract Management Command-International area offices, we clarified our intent and request that the Defense Contract Management Command provide additional comments. Management comments are requested by September 3, 1996.

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Part I - Audit Results

Audit Background

Review of DoD Acquisition System and Management Practices. In February 1989, President Bush directed the Secretary of Defense to perform a management review of the DoD acquisition system and management practices. The review was intended to identify methods that would more effectively and efficiently manage DoD resources and would achieve budgetary savings by implementing cost-saving initiatives. As a result of his review, the Secretary of Defense developed and submitted to the President a plan that was intended to realize substantial improvements and savings in the DoD acquisition process. To implement the Defense management review plan, DoD developed 250 Defense management report decisions, with projected savings for each decision.

Consolidation of DoD Contract Administration Services. In November 1989, Defense Management Report Decision 916 (Decision 916) directed that the contract administration services (CAS) structure within the DoD be reorganized and that virtually all Defense CAS be consolidated into a single organization. Before the consolidation, CAS was divided among the three Military Departments and the Defense Logistics Agency. In February 1990, as a result of Decision 916, DoD established the Defense Contract Management Command (DCMC) within the Defense Logistics Agency to provide CAS throughout DoD. On June 30, 1990, the Military Departments' contract administration offices in the United States were officially transferred to DCMC.

The DCMC Structure. The DCMC structure includes a headquarters element, which provides policy and oversight, and a field structure, which consists of two districts within the United States and an international district, Defense Contract Management Command-International (the International District). The field structure includes two operating elements that are subordinate to the districts: Defense plant representative offices and area operations offices (area offices). The Pacific had no Defense plant representative offices. However, the area offices maintain resident offices at specific contractor plant locations to administer aircraft repair contracts.

Area offices provide management, CAS, and CAS-related services on contracts in specific geographic areas. CAS-related functions include quality assurance, production surveillance, property administration, transportation, safety, and flight operations. In addition, the offices are staffed with business operations personnel, such as managers, procurement clerks, accounting technicians, and secretaries, who provide basic mission and administrative support as well as oversight of functional areas. Personnel responsible for CAS performance are also located at subordinate CAS offices referred to as management and resident offices and some of which include itinerant teams.

CAS Performed Outside the United States. On March 21, 1990, DCMC established the International District to provide management and oversight of all CAS performed outside the United States. The Air Force Contract Maintenance Center, Wright-Patterson Air Force Base, Ohio, was previously responsible for oversight of all CAS performed outside the United

States. The International District was established to retain a nucleus of corporate knowledge, maintain stability, and compensate for personnel turnover and turbulence inherent in the overseas rotational environment. The International District maintained a headquarters staff in Dayton, Ohio, to direct and manage its widely dispersed locations, taking advantage of existing Air Force personnel experience during the transition. On October 1, 1990, the International District initiated transfer from DoD of all CAS resources outside the United States using an "as is, where is" philosophy for in-place organizations.

Audit Objectives

The overall audit objective was to determine whether DoD contract administration officials in the Pacific properly and effectively used contract administration resources, policies, and procedures. Specifically, we focused on whether contracting officers properly delegated contracts to the International District in accordance with Decision 916, and whether the International District effectively and efficiently used its resources. We also evaluated management controls that were applicable to the audit objectives.

See Appendix A for a discussion of the scope, methodology, and management control program and Appendix B for a summary of prior coverage related to the audit objectives.

Management of Contract Administration Resources in the Pacific

Contracting officers generally delegated the administration of contracts in the Pacific to the International District in accordance with Decision 916. However, International District and DCMC officials did not take action in the Pacific to streamline CAS offices and to reduce overhead as required by Decision 916. Management did not take action because the International District did not effectively use workload indicators and other methods to determine resources required to administer the overseas contracts. In addition, the International District did not have reliable workload data to manage its resources and DCMC did not provide adequate oversight of the International District or establish management controls to ensure that CAS resources in the Pacific were efficiently used. As a result, the International District incurred excessive personnel and operating costs in the Pacific to administer contracts that were low in complexity and dollar value. DCMC could reduce CAS offices in the Pacific and put at least \$13.5 million to better use during FYs 1996 through 2001.

Consolidation of All Contract Administration Services

Reasons for Consolidating the CAS Function. Reasons for consolidating CAS under Decision 916 included the need to:

- o streamline existing CAS organizations,
- o promote uniform procurement policy,
- o upgrade the quality of the CAS work force while eliminating overhead and reducing payroll costs,
- o save dollars through improved efficiency in CAS functions, and
- o implement management control mechanisms to measure the efficiency and effectiveness of the major CAS processes.

Specific Guidance on Resource Management. DCMC delegated the authority for determining CAS office staffing levels to International District and District Commanders. Defense Logistics Agency Manual 5810.1, "Organization of DLA [Defense Logistics Agency] Field Activities," (the Manual) prescribes resource management mission and functions for the International District and the other DCMC districts in the United States. The Manual includes policies, controls, and techniques that emphasize the need for positive action to achieve effective operations and efficient resource use. Although DCMC maintains

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oversight of the Manual's implementation, the Manual delegates the responsibility for resource management to the International District and the other two districts.

DCMC Oversight Responsibility. The Manual requires the principal staff elements to review, at least every 3 years, their cognizant mission areas. Any resulting recommendations that will improve mission accomplishment, operational effectiveness, and resource use are made to the Assistant Director, Policy and Plans, Defense Logistics Agency. The recommendations may include changes to the existing organization.

The International District Responsibility for Resource Management. The following required functions demonstrate the role of the International District in managing its resources.

- o Administer Defense Logistics Agency policy for controlling and improving mission and organization.

- o Develop and implement procedures and techniques for evaluating International District mission assignments, organization, and functions.

- o Implement performance measurement programs, including development and identification of performance measurement indicators.

- o Develop, coordinate, and analyze workload forecasts and develop resource staffing evaluations for management.

Contract Administration Offices in the Pacific. Four area offices administer CAS in the Pacific. The Pacific area offices are in Korea, Japan, Malaysia, and Australia. Those area offices maintain oversight of at least one subordinate CAS office. Figure 1 shows the four Pacific area offices and the corresponding subordinate offices.

Management of Contract Administration Resources in the Pacific

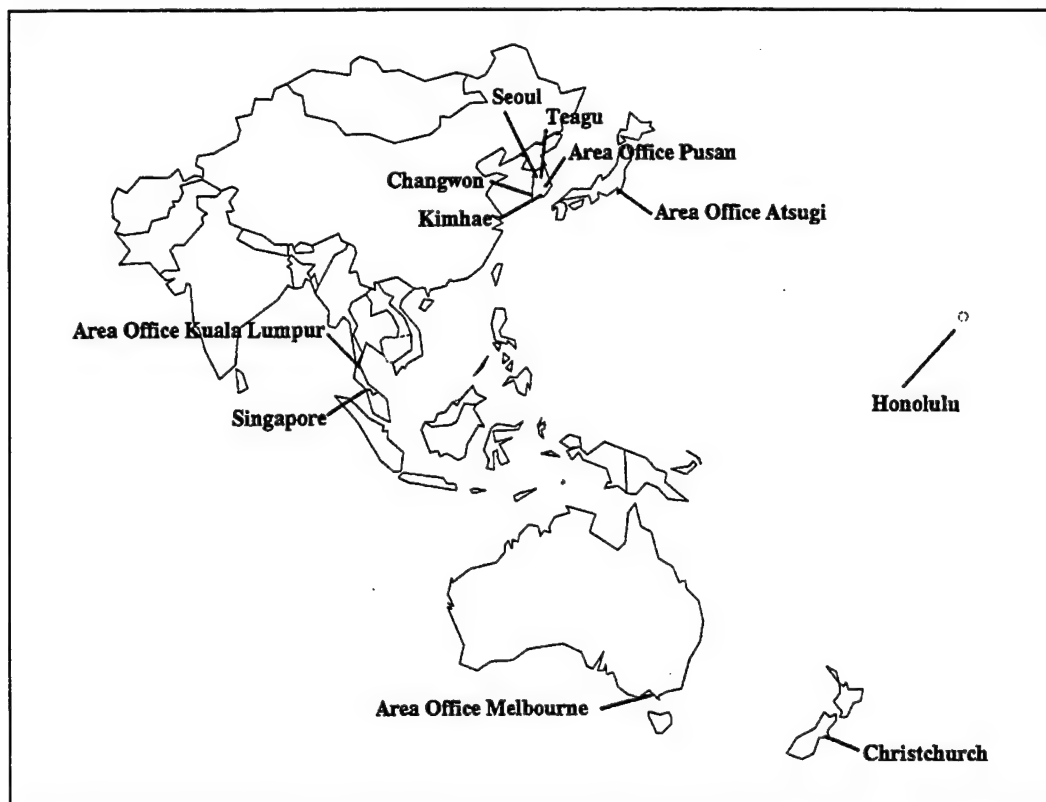


Figure 1. Locations of Area and Subordinate Offices

Contract Administration Resources in the Pacific

The International District management did not take action in the Pacific to streamline CAS offices and reduce overhead as required by Decision 916. Since FY 1991, DCMC and District Commanders have streamlined CAS resources in the United States. As of October 1995, the number of districts decreased from 5 to 3 (since decreased to 2), and CAS staffing levels decreased from 21,320 to 16,478 (22.7 percent). The true reduction to DCMC was 22.4 percent because 69 of the 21,320 positions were transferred to the International District and remained within DCMC. However, full-time equivalent work years for CAS in the Pacific have remained relatively the same since the contracts were transferred from the Military Departments, from 166 full-time equivalent positions to 167 as of September 5, 1995. Meanwhile, the value of contracts over the same period showed a relatively downward trend (see Figure 2).

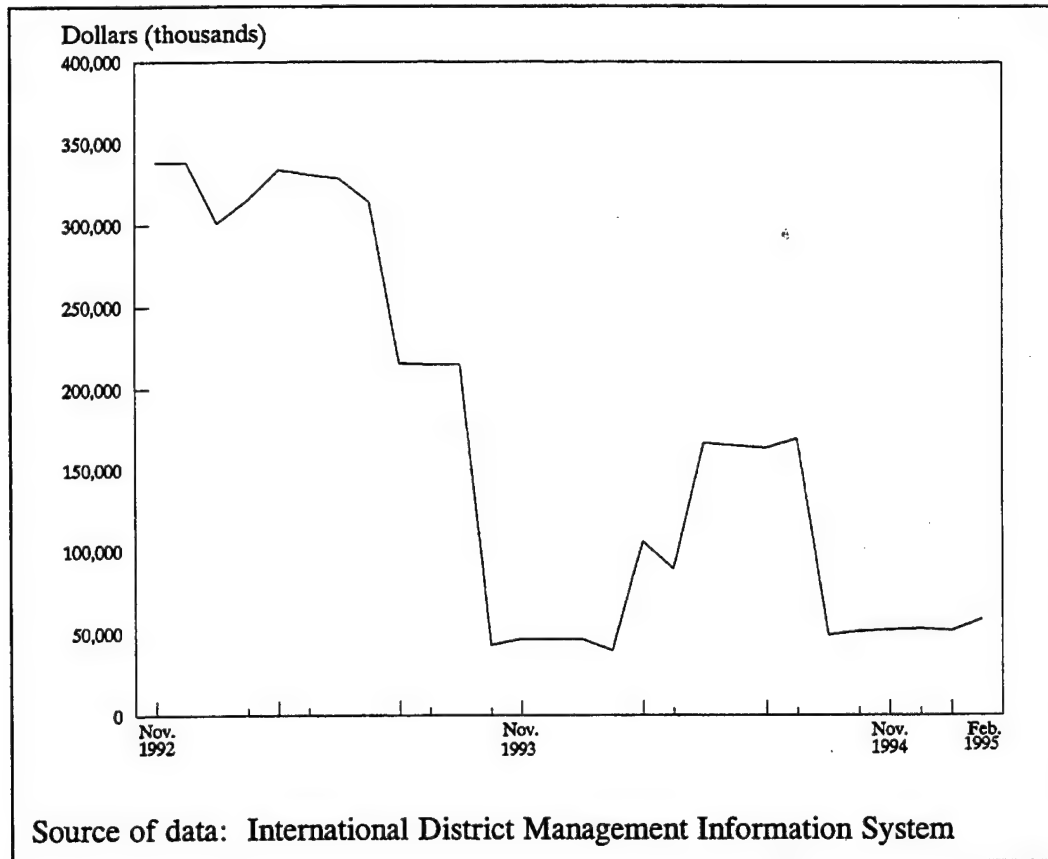


Figure 2. Unliquidated Value of Contracts Administered From November 1992 Through February 1995

Of 736 full-time equivalent positions assigned to the International District as of September 1995, 167 (23 percent) were assigned to the Pacific. See Appendix C for a schedule of transferred and existing resources. As discussed below, review of CAS work load and resources indicated that some CAS offices in the Pacific are not cost-effective. DCMC could better use resources by reducing CAS personnel in the Pacific with little, if any, risk to DoD.

Workload Indicators

Pacific Staffing and Work Load Compared With International District Average. Workload indicators for July 1995 showed that CAS offices in the Pacific required significantly more resources to administer contract work load than other International District offices. Specifically, the comparison (Table 1) shows that Pacific CAS offices use 27 percent of the administrative contracting officers (ACOs), 17 percent of the contract specialists, and 23.5 percent of total contracting personnel within the International District to administer 10.6 percent of the contracts. Those contracts represent even less of the total dollar value of

Management of Contract Administration Resources in the Pacific

contracts within the International District. They represent 1.8 percent of the obligations and 2.3 percent of the unliquidated obligations within the International District.

Table 1. Comparison of Pacific Staffing and Work Load With International District Totals Reported as of July 1995

	<u>Pacific Area Offices</u>	<u>International Area Offices</u>	<u>Ratio (Percent)</u>
Dollars obligated ¹	\$199.4	\$11,082.8	1.8
Unliquidated obligations ¹	\$66.6	\$2,939.2	2.3
Number of contracts ²	531	5,028	10.6
ACOs	17	63	27.0
Contract specialists	<u>6</u>	<u>35</u>	17.0
Total contracting personnel ³	<u>23</u>	<u>98</u>	23.5
Personnel assigned ⁴	167	736	22.7

¹Dollars reported in millions.

²For workload indication purposes, DCMC reports individual work orders and requests as prime contracts. Our analysis showed that of the 531 contracts reported, 90 (17 percent) were prime contracts.

³Represents total ACOs and contract specialists.

⁴Reported as of September 1995.

While those comparisons are only indicators that Pacific CAS offices may have excessive resources, our review of contracts and staffing in the Pacific provided other indications that DCMC management should evaluate those CAS offices.

Complexity of Work Load. Contracts administered in the Pacific are generally low in complexity and dollar value and, therefore, do not warrant intense monitoring. For instance, complexity of work load is related to the type of contracts being administered. Other factors being equal, a cost- or incentive-type contract is likely to require more effort to administer than a firm-fixed-price contract. The contracts administered by the International District in the Pacific were all firm-fixed-price contracts that had no special clauses or requirements, such as:

- o economic price adjustments, which require the CAS office to reprice articles, or

- o forward pricing agreements, which require the CAS office to negotiate various prices for direct and indirect overhead rates.

Management of Contract Administration Resources in the Pacific

Also, workload complexity generally is related to the contract dollar value. Contracts that exceed certain dollar values require more effort to administer because of socioeconomic clauses and Federal Acquisition Regulation requirements, such as:

- o subcontractor plans,
- o procurement system reviews, and
- o cost accounting standard requirements.

Contracts administered in the Pacific do not exceed the thresholds and, therefore, do not require extensive effort to administer.

Staffing and Work Load in Malaysia. Malaysia, which includes Kuala Lumpur and Singapore, reported as of March 1995 a total work load of 14 contracts, valued at \$59.4 million annually (see Table 2).

Table 2. Staffing and Work Load in Malaysia

International District Office	Number of Personnel on Board ³	Number of Personnel Authorized ³	Number of Prime Contracts ²	Operating Cost ¹ (millions) [A]	Value of Contracts ² (millions) [B]	Cost Per Contract Dollar to Administer [A - B]
Kuala Lumpur and Singapore	28	29	14	\$2.3	\$59.4	
Less:						
Fuels ⁴	(1)	(1)	(6)	(0.1)	(47.2)	
Subcontractor parts ⁵	-	-	(3)	(0)	(8.8)	
Total	27	28	5	\$2.2	\$ 3.4	\$0.65

¹For FY 1995.
²Annually, as of March 31, 1995.
³As of September 5, 1995.
⁴The subordinate office in Singapore performed quality assurance on six fuel contracts that accounted for 79 percent of the overall contract value while requiring the work of only one fuel specialist. We deducted the fuel contracts and associated operating costs from the total to demonstrate that the majority of the \$2.3 million operating costs represented full CAS performed on five contracts.
⁵The area office in Kuala Lumpur unnecessarily performed quality assurance on subcontractor parts that were the responsibility of the primary contractor. We deducted those contracts from the total to demonstrate the full CAS work load performed in Malaysia.

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Of the 14 contracts, the Malaysia area office performed full CAS on only 5 contracts, valued at about \$3.4 million annually. During FY 1995, the Malaysia area office incurred approximately \$2.2 million for personnel and operating costs to provide full CAS on the five contracts, which were generally for C-130 aircraft maintenance. A comparison of operating cost to value of work load in Malaysia shows that DoD incurred personnel and operating costs of approximately \$0.65 for every contract dollar spent on contracts that the International District administered.

Of the 14 contracts, the 9 remaining contracts, valued at \$56 million, required CAS of quality assurance only. Quality assurance personnel are responsible for accepting materials based on quality inspections, performing product verification inspections, and evaluating effectiveness of the contractor's quality control system. Of the \$56 million, \$47.2 million (84 percent) was for quality assurance on fuel contracts, a work load that was performed by one fuel quality assurance specialist who also performed quality assurance for fuel contracts in Australia. The remaining \$8.8 million represents contracts for which quality assurance was performed unnecessarily.

Negotiation of Over and Above Costs on Full CAS Contracts. ACOs in Malaysia spent resources to negotiate over and above work proposals without producing reasonable savings. The cost of over and above items for aircraft repair was prenegotiated in the existing contracts. Therefore, CAS effort required to negotiate over and above work proposals was minimal and generally consisted of determining whether the work was necessary. However, contractors routinely identified work that was necessary with a high degree of reliability. As a result, the number of over and above work proposals processed and reported to management overstated actual work that the ACO performed. The following illustrates the work proposal overstatements.

- o For the year ended March 1995, Singapore contractors proposed 4,027.8 hours of over and above work, valued at \$149,029. The ACO and quality assurance representatives disapproved only 30 hours (\$1,110), which represents savings of less than 1 percent through negotiation.

- o In Kuala Lumpur, the contractor for a scheduled depot-level maintenance contract consistently identified work that was necessary under the contract. Even so, the ACO and the quality assurance representatives held negotiations with the contractor to determine whether work proposals were included under the basic statement of work or should be charged as separate over and above items. The negotiations resulted in only 18 of 162 over and above work proposals being included in the basic statement of work. The negotiations resulted in savings of \$4,377, or 3.7 percent of the total over and above work proposals submitted.

Quality Assurance on Subcontractor Parts. Quality assurance personnel unnecessarily spent time performing quality assurance on prime contractors' subcontracts. As discussed in the examples below, prime

Management of Contract Administration Resources in the Pacific

contractors should be held responsible for the quality of commercial items purchased from subcontractors unless a compelling reason exists for Government oversight.

- o The Defense plant representative office at a prime contractor's facility in Ohio required the area office in Kuala Lumpur to make unnecessary trips to China to perform surveillance of a subcontractor's production process and to accept finished parts. Of the \$8.8 million in quality assurance contracts for products other than fuel, \$8.6 million represented a subcontract for engine disks manufactured in China. The part, a disk costing \$10,500, is used in a standard commercial turbine engine that DoD adopted for marine use. The prime contractor used China as a source of this part for the last 9 years and, with no reported quality problems, assigned a high quality rating to the subcontractor. By assigning the high rating, the prime contractor has determined that the subcontractor requires limited quality oversight.

- o The Kuala Lumpur area office inappropriately performed quality assurance on another subcontracted commercial item, a ship anchor chain. DoD purchased an anchor and chain from a prime contractor in San Diego. The prime contractor used a Malaysian company as a source for the chain and, therefore, is responsible for the quality of the chain.

Although the Federal Acquisition Regulation provides for inspection of subcontracted items at the discretion of the ACO, the prime contractor is paid to administer its subcontracts and, therefore, is ultimately responsible for the quality of its subcontracted items. DCMC personnel are responsible for reviewing the adequacy of the prime contractor's efforts to administer its subcontracts. In response to a declining workforce and a requirement to become more efficient, the Kuala Lumpur area office should not spend resources performing quality assurance on subcontracted items unless such services are written into the contract with a corresponding reduction in contract price or unless a compelling reason exists for Government oversight in accordance with established criteria in the "One Book," Defense Logistics Agency Manual 8000.5.

Conclusion on Malaysia Staffing and Work Load. Our review of CAS office responsibilities for the 14 contracts indicated that minimal effort was required to administer those contracts. Results of the over and above cost negotiations, the most complex and time-consuming aspect of the five contracts that required full CAS, indicated a need for only minimal effort. Of the remaining contracts that required only quality assurance, 84 percent of the contract value was for fuel inspections and was handled by 1 fuel quality specialist. For the contracts that were not related to fuel inspections, quality assurance was performed unnecessarily. Overall, we concluded that the rate of return on the contracts administered in Malaysia did not warrant the resources invested. DCMC could close or significantly reduce the CAS offices in Malaysia and perform the required quality assurance on an itinerant basis, thereby putting at least \$13.5 million to better use for FYs 1996 through 2001 (Appendix D). The availability of three military flights per week from Japan to Singapore makes performing quality assurance on an itinerant basis a feasible alternative.

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Staffing and Work Load in Japan. During FY 1995, the Japan area office, located at Atsugi (excluding Hawaii), incurred personnel and operating costs of \$3.9 million to administer 336 contracts (delivery orders), valued at \$14.4 million (see Table 3).

Table 3. Staffing and Work Load in Japan

International District Office	Number of Personnel on Board ³	Number of Personnel Authorized ³	Number of Prime Contracts ²	Operating Cost ¹ (millions) [A]	Value of Contracts ² (millions) [B]	Cost Per Contract Dollar to Administer [A ÷ B]
Atsugi ⁴	52	52	5	\$3.9	\$14.4	\$0.27
¹ Average operating cost for FY 1995 based on number of personnel per office. ² Administered during FY 1995. ³ As of September 5, 1995. ⁴ Does not include the subordinate office in Hawaii.						

In effect, the Japan area office used 46 personnel paid by the U.S. Government and 6 personnel paid by the Japanese Government to administer 67 contracts with an individual value of \$25,000 or greater. Only 33 of the 67 contracts were valued at more than \$100,000 each. As a result, the International District incurred personnel and operating costs of approximately \$0.27 for every contract dollar spent on contracts administered by the area office in Japan.

All contracts administered by the Japan area office were fixed-price contracts. Those contracts were generally low in dollar value with a quick turnaround to completion. For example, contracts (delivery orders) administered in Japan during FY 1995 had an average value of \$42,755 and required an average of 42 days from date of award to date of physical completion (delivery of goods and services). Of a total 336 contracts administered during FY 1995, 269 contracts (80 percent) were valued at less than \$25,000 each. Of the 269 contracts valued at less than \$25,000 each, 98 (36 percent) contracts were less than \$1,000 each. Table 4 shows the dollar value range of the 336 contracts.

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Table 4. Number and Value of Contracts Administered in FY 1995 by Japan Area Office (Excluding Hawaii)

	<u>Number of Contracts¹</u>	<u>Dollar Value Range</u>
	33	Greater than \$100,000
	34	\$25,000 to \$100,000
	<u>269²</u>	Less than \$25,000
Total	336	

¹Number of contracts represents number of delivery orders issued under two primary contracts.

²98 contracts were less than \$1,000 each.

The fixed-price contracts administered in Japan required no significant negotiations or modifications. Although over and above work was performed on contracts, the ACO was required to negotiate the price of over and above work for few proposals. For example, our analysis showed that the ACO negotiated savings of \$87 on \$4,364 (2 percent) of the proposed over and above work. The price of additional services was prenegotiated and included in the terms of the contract.

Furthermore, historical data on the primary contracts show a steady decline in work load since 1991 with no corresponding reduction in staff. The work load in Japan represents 2 primary contracts with 1 contractor for aircraft maintenance and includes 336 delivery orders issued on those contracts during FY 1995. Total aircraft maintenance for the contractor's facility peaked during the Vietnam War at 1.9 million hours per year. By 1991, the total aircraft maintenance work load declined to 210,000 hours per year. From FYs 1991 through 1995, work load decreased an additional 43 percent to 120,000 hours. DCMC should reduce staffing levels in Japan to correspond with the significant reduction in work load.

Management of Contract Administration Resources in the Pacific

Staffing and Work Load in Korea. During FY 1995, the Korea area office, which employed 60 personnel, incurred costs of \$4 million to administer 23 fixed-price contracts, valued at \$23.9 million. As a result, the International District incurred administration costs of approximately \$0.17 for every contract dollar spent on contracts administered by the International District in Korea (see Table 5). The \$0.17 average cost in Korea appears relatively insignificant compared with Japan and Malaysia; however, a closer look at the work load of each CAS office in Korea indicates the potential for additional staffing reductions.

Table 5. Staffing, Work Load, and Cost for Korea by CAS Office

International District Office	Number of Personnel on Board ³	Number of Personnel Authorized ³	Number of Prime Contracts ²	Operating Cost ¹ (millions) [A]	Value of Contracts ² (millions) [B]	Cost Per Contract Dollar to Administer [A ÷ B]
Kimhae	25	26	9	\$1.7	\$15.3	\$0.11
Seoul	12	12	8	0.8	1.7	0.47
Pusan headquarters	11	11	0	0.7	0.0	N/A
Itinerant (including Changwon)	12	12	6	0.8	6.9	0.12
Taegu	<u>6</u>	<u>7</u>	<u>7</u>	<u>0.4</u>	<u>200.2</u>	N/A
Subtotal	66	68	30	\$4.4	\$224.1	
Less:						
Fuels ⁴	<u>(6)</u>	<u>(7)</u>	<u>(7)</u>	<u>(0.4)</u>	<u>(200.2)</u>	
Total	60	61	23	\$4.0	\$23.9	\$0.17

¹Average FY 1995 operating cost based on number of personnel per office.
²As of September 30, 1995.
³As of September 5, 1995.
⁴The subordinate office in Taegu performed quality assurance on 7 fuel contracts that accounted for 89 percent of the overall contract value while requiring the work of only 6 individuals. We deducted the fuel contracts and associated operating costs from the total to demonstrate that the majority of the \$4.4 million operating costs was incurred while performing full CAS on 23 contracts.

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Of the 66 personnel in Korea, 11 personnel who were assigned to the Pusan area office did not perform CAS, but rather provided administrative support to all subordinate CAS offices in Korea. The CAS provided on fixed-price contracts were generally limited to the following functions:

- o monitor the contractor's production schedule to ensure that items are delivered in a timely manner in accordance with the contract,
- o accept delivery of contracted items that meet contract quality standards,
- o approve payment to the contractor, and
- o close out the contract when contracting personnel have performed all required actions.

Review of contract work load at the four contract administration offices identified areas of potential staffing reduction at each office, as discussed below.

Contracts Administered in Kimhae. The subordinate CAS office in Kimhae includes a staff of 25 personnel, plus 3 liaison personnel provided by the Air Force and the Marine Corps, with an average personnel and operating cost of \$1.7 million (not including the 3 liaison personnel). During FY 1995, the Kimhae office administered 26 delivery orders (9 contracts) valued at \$15.3 million. The contracts required Korean Airlines to perform upgrades and maintenance on several types of DoD aircraft. Based on an agreement between the Republic of Korea and DoD, the Republic of Korea reimbursed DoD for all contract costs except for the modification kits required for upgrade of the F-15 aircraft. The Air Force provided the kits. The Republic of Korea and DoD established the agreement to compensate DoD for maintenance of aircraft used in defense of the Korean peninsula. Although protection of DoD assets is important, the International District should reevaluate its requirements for maintaining a staff of this size to administer and oversee work that Republic of Korea funds pay for.

Contracts Administered in Seoul. As of October 1995, the subordinate office in Seoul, Korea, employed 12 personnel at an average personnel and operating cost of \$0.8 million to administer 8 contracts. The contracts were fixed-price delivery orders that incurred costs of \$1.7 million during FY 1995 to repair clothing, mattresses, and furniture and to paint and perform minor repairs on vehicles and construction equipment. DoD incurred personnel and operating costs of \$0.47 for every contract dollar spent on contracts that the Seoul CAS office administered. Discussions with contracting personnel in Seoul indicated that the four quality assurance personnel assigned to that office were not efficiently and effectively used. For example, they spent 60 percent of their time implementing process-oriented contract administration services (PROCAS), a methodology that promotes contractor and CAS processes to provide continuous process improvement. PROCAS is intended to increase customer satisfaction with contractor and DCMC products and services and ultimately should reduce the need and cost for Government surveillance.

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Senior officials in the DCMC business office stated that PROCAS does not really apply to International District area offices in the Pacific. They acknowledged that no specific criteria supported the applicability of PROCAS to contract administration in the Pacific, stating that the use of PROCAS was more of a common sense issue. The benefits of PROCAS would be realized on the larger contracts with sizeable work loads. For example, a contract for aircraft production involves a significant number of processes. As a result, DoD and the contractor have room for discussion on how to implement change to some of the processes that would benefit both DoD and the contractor. By comparison, the contracts administered in Seoul would not benefit from PROCAS because the contracts involve few processes and are low-dollar value, with prices ranging from \$1,500 to \$106,000. Furthermore, the contracts are all fixed-price contracts and, therefore, could provide no measurable cost benefits.

Contracts Administered Near Pusan. During FY 1995, six personnel assigned to the subordinate office in Pusan performed CAS on six contracts valued at \$6.9 million. Six quality assurance specialists assigned to Changwon, located 45 miles from Pusan, performed quality assurance on the six contracts. As of October 1995, two of the six contracts, valued at \$2.1 million, were physically complete. Of the four remaining contracts, three were fixed-price contracts, valued at \$3.7 million. The remaining contract was a foreign military sales contract between the U.S. Air Force and the Royal Thai Air Force.

Fuel Contracts Administered in Taegu. Six personnel assigned to the Taegu office performed quality assurance on seven fuel contracts, valued at \$200.2 million. The Defense Fuel Supply Center awards and administers all fuel contracts. The fuel specialists perform quality assurance on into-plane; bulk; and post, camp, and station fuel contracts. As shown in the following examples, quality assurance performed on contracts for fuel based on commercial specifications are low risk to U.S. Government property. As part of its streamlining of CAS resources in the Pacific, the International District should consider turning over the quality assurance responsibility for fuels to the Republic of Korea's Defense Quality Assurance Agency under the host-CAS agreement. (Host-CAS is discussed on page 17.)

- o Of the \$200.2 million, \$10.8 million (5.4 percent) is for into-plane contracts for commercial aviation fuels. Quality assurance for into-plane contracts involves inspection of equipment and operations and review of testing records and safety procedures. According to fuel specialists, the into-plane contracts require 25 to 28 travel days per year. Personnel stated that inspection of aviation fuel was necessary to ensure that jet fuel used in military aircraft was high quality and not contaminated. However, Defense Fuel Supply Center personnel told us that seven of the nine into-plane refueling centers in the Pacific use normal commercial grade aviation fuel. Those personnel also stated that military aircraft continue to use uninspected commercial aviation fuel without any known mishaps. In addition, we noted that the Kimhae office routinely buys aviation fuel from Korean Airlines without prior inspection by six Taegu fuel specialists. The fuel is used to fly aircraft that have completed required maintenance and repair back to the assigned squadron within Korea.

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- o Bulk fuel contracts account for \$152.1 million (76 percent) of the fuel contracts. The fuel specialists spend 288 to 600 travel days each year observing fuel testing and verifying quantities received for bulk purchases of commercial aviation and marine fuels.

- o Post, camp, and station contracts account for \$37.3 million (18.6 percent) of the fuel contracts. The contracts are primarily for commercial products such as diesel fuel and heating oil. Fuel specialists spend up to 60 days per year on quality assurance for the contracts. By February 1996, the PROCAS initiatives implemented by quality assurance representatives at five post, camp, and station locations are expected to reduce the amount of quality assurance required for those contracts. Also, the Defense Fuel Supply Center told us that fuel specialists for the Defense Fuel Supply Center were not normally involved with post, camp, and station fuel contracts unless a problem occurred that required additional testing of the fuel.

Host-CAS Agreement for Quality Assurance. Under a host-CAS agreement between Defense Logistics Agency and the Korean Ministry of National Defense, the International District should be able to eliminate most of its 26 quality assurance positions in Korea. The objective of the agreement was to transfer the quality assurance function for DoD contracts awarded in Korea from the International District to the Defense Quality Assurance Agency, under the Korean National Defense Ministry.

The agreement for "Reciprocal Quality Assurance Services Between the U.S. and Korea" (referred to as the host-CAS agreement), was established August 3, 1993. The agreement delegated to the Commander, International District, the authority to develop an implementation plan, negotiate the terms of the plan with the Korean Government, and sign the agreed-to plan on behalf of the U.S. Government. The transition plan for transfer of quality assurance to the Defense Quality Assurance Agency, a Korean agency, was implemented March 15, 1995.

The transition plan called for transfer in March 1995 of three noncritical target contracts administered by the Seoul CAS office. Assuming acceptable performance, negotiation for the remaining Seoul contracts was scheduled for October 1995. The plan projects that quality assurance for all DoD contracts will be turned over to Korea by January 1997.

As of 1996, the International District had made no commitment to reduce the number of quality assurance personnel assigned to its CAS offices in Korea. The primary function of a quality assurance specialist is to accept contractor performance on behalf of the U.S. Government by signing an acceptance form, authorizing payment to the contractor. The signature authority has not been delegated to the Korean quality assurance specialists. Furthermore, International District quality personnel stated that they saw little benefit from the agreement because they had no intention of signing to accept services that were reviewed by someone else. Although the International District has not reduced its quality assurance personnel in Korea, the Korean Government continues to charge the Defense Logistics Agency \$55 per hour for quality assurance services rendered. The International District paid the Korean Defense

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Quality Assurance Agency a total of \$14,000 through FY 1995 and obligated more than \$100,000 for FY 1996 to perform quality assurance on contracts previously administered by the Seoul CAS office.

Administrative and Mission Support. During the last 5 years, the International District took no action to reduce its overhead costs in the Pacific. For example, of a total 167 full-time equivalents assigned to CAS operations in the Pacific as of October 1995, 76 (46 percent) represented administrative and mission support, otherwise referred to as indirect labor (Appendix E).

Summary on Work Load and Resources. Our review of International District work load and staffing at three of four CAS area offices in the Pacific showed that staffing levels were not cost-effective. Annual personnel and operating costs ranged from \$0.17 in Korea to \$0.65 in Malaysia for every dollar awarded on contracts administered by those area offices. See Appendix F for a consolidated cost schedule. That average cost does not include costs associated with DCMC and International District headquarters or costs paid for by other DoD organizations and foreign governments. Furthermore, based on the type, complexity, and dollar value of the Pacific contracts, we concluded that the rate of return on the contracts and the minimum associated risk to DoD does not warrant the level of resources invested.

Based on our review at three of four Pacific area offices, the need to downsize appears more obvious in some areas than others. In Malaysia, for example, resources could be better used by placing more responsibility for quality control on contractors and by performing required CAS functions on an itinerant basis. Closing the CAS offices in Malaysia would make about \$13.5 million available for better use (Appendix D). Another viable alternative would be to consolidate the administrative and mission support function to one area office. As of September 1995, the function was spread among four area offices and represented 46 percent of total personnel costs. In January 1996, the International District took action to consolidate the four Pacific area offices to one area office. In any case, DCMC should perform a review and analysis of work load and resources at each of the Pacific CAS offices.

The review would provide a more detailed analysis of International District work load and staffing requirements and identify the effects that the host-CAS has on staffing requirements. Specifically, the review and analysis should include action to:

- o establish a definitive method for the International District to determine effective and efficient staffing levels;
- o tailor CAS resources to reflect contract type, value, and risk, while also considering the effects of host-CAS;
- o reduce excess CAS resources based on workload requirements; and
- o eliminate those CAS offices that are not cost-effective.

Justification for No Reduction in Staffing Levels

The International District did not take adequate actions to ensure effective operations and efficient resource use for contract administration offices in the Pacific, as required by Defense Logistics Agency Manual 5810.1. As a result, full-time equivalent work years funded for CAS in the Pacific remained relatively the same since the work load was transferred from the Military Departments beginning in FY 1990. International District senior officials stated that the International District did not reduce staffing levels in the Pacific because data being reported from CAS offices in the Pacific were not reliable and because overseas CAS operations were considered unique.

Improving Data Reliability. According to the International District, workload data reported from CAS offices in the Pacific were not reliable and, therefore, could not be used to evaluate performance or determine resource requirements. Data elements reported by Korea and Japan showed that a lack of guidance from the International District caused inconsistencies in reporting of management information.

- o In Korea, the Pusan and Seoul offices used different methods of counting the number of active contracts. We identified the discrepancy and the area office sought guidance from the International District. With the new guidance, the area office now accurately reports the number of active contracts.

- o In Japan, the area office did not use the correct source document to report contracts closed. Therefore, the number of contracts reported as active and closed during the month was inaccurate. As a result of our discussions, the ACO in Japan corrected the inaccuracy.

- o Personnel in Korea and Japan responsible for reporting management information to the International District expressed frustration with the voluminous requests for information. They saw no value in the information they provided and did not know how or whether the information was being used. The lack of interest in the reported information could affect the reliability of the data.

International District Controls on Reporting Management Information. The International District did not establish management controls to verify that subordinate CAS offices accurately reported management information. Specifically, the International District did not develop procedures for CAS area offices on gathering and reporting management information used to determine resource requirements and to evaluate efficiency. As a result, management information reported to the International District and DCMC could not be relied on to make effective management decisions regarding work load and staffing levels.

The International District determined that the resource estimators "model" used by DCMC to establish appropriate staffing levels at the CAS offices was inappropriate for the International District. The International District attempted to use variations of the model, without success. The International District

explained that its lack of a standard management information system containing reliable data was a significant factor in the inability of the International District to use the DCMC-established model in any form.

Development of New Management Information System. To correct the problem of unreliable management information reported from the field, in October 1993, the International District initiated development of a new management information system, the System for Integrated Contract Management. However, before initiating development of a new system, the International District did not evaluate alternative methods of correcting the problem or make an adequate attempt to identify and correct problems within the existing DCMC management information system.

Personnel in Japan and Korea responsible for reporting management information to the International District were very skeptical of the new system, which was not fielded as of January 1996, and were not sure how they could benefit by using it. The commander of the Korea area office stated that the International District did not elicit input from the Korea area office before or during development of the new system. The International District must provide adequate guidance and effective management controls to ensure that input errors and inconsistencies in reporting procedures do not continue to occur with the new system.

International District Uniqueness. International District management consistently cited the uniqueness of performing CAS in an international environment as a basis for not using DCMC established methods and workload indicators to determine resource requirements and to evaluate performance. To support the uniqueness rationale, the International District cited 37 unique issues facing CAS offices outside the United States. Of the 37 unique issues, we identified 10 issues that could potentially affect CAS resources in the Pacific. CAS personnel in the Pacific stated that those issues, some of which are discussed in the following paragraphs, had little, if any, effect on CAS resources in the Pacific.

Defense Management Report Decision 916. The International District stated that the consolidation that occurred through implementation of Decision 916 resulted in fewer required resources and corresponding savings. Of the eight organizations eliminated when the International District was created, two were located in the Pacific. However, we were unable to quantify any monetary benefits in the Pacific as a result of the consolidation. Specifically, full-time equivalent work years funded for CAS in the Pacific have remained relatively the same since the work load was transferred from the Military Departments beginning in 1990 (Appendix C).

Language Interpretation. According to the International District, much of the CAS effort revolves around language interpretation. Most contracts are written in English and require local nationals to translate the contract into the native language. However, CAS personnel in Korea and Japan stated that most local contractors employ someone who speaks English. As a result, interpretation issues rarely affect day-to-day CAS operations.

Time Zones. Significant differences in time zones require International District personnel to make other arrangements, such as returning to the office during off hours or calling from their personal residences. Although the time zone differences may be an inconvenience at times, CAS personnel in the Pacific stated that the time difference merely required additional planning on their part.

Foreign Service Nationals. Based on an agreement with the specific country's government, citizens of the country, foreign service nationals (nationals), are hired to work for the International District. The agreement determines what the nationals will be doing for the United States, how much they will be paid, and what benefits they will receive. The agreement also specifies whether the United States will pay the nationals directly or indirectly, through the country's government. According to the International District, the area office handles personnel matters of the nationals who work for that office. Managers of the area offices in Japan and Korea, the Pacific countries with the most nationals on staff, stated that once the agreement with the foreign country is established, the administration of personnel matters for nationals, although different from the administration of U.S. personnel matters, requires a similar amount of effort.

Uniqueness Issue Unchallenged by DCMC. DCMC did not challenge the position of the International District that CAS operations outside the United States were unique and, therefore, required a larger staff for a lesser work load as compared with CAS operations in the United States. According to business operations personnel at DCMC, uniqueness is not a valid issue. DCMC management did not challenge the uniqueness issue in prior years because DCMC did not fully understand CAS operations outside the United States, a function that was previously handled entirely by the Air Force. Business operations personnel stated that the only issue that really affected the Pacific staffing requirements was implementation of host-CAS, which should reduce rather than increase work load.

Adequacy of Management Oversight

DCMC did not provide adequate oversight of resource management responsibilities that were assigned to the International District. Specifically, DCMC actions taken to streamline CAS resources, as required by Decision 916, could not be effectively applied to CAS resources outside the United States. In addition, DCMC did not perform necessary management reviews to verify that the International District streamlined CAS resources in the Pacific as required by Decision 916 or that the International District used workload indicators and other methods to determine appropriate staffing levels. As a result, the International District incurred excessive personnel and operating costs in the Pacific to administer contracts that were low in complexity and dollar value.

Adequacy of Actions Taken by DCMC. DCMC actions taken to provide oversight of CAS resources did not apply to the International District. For example, to comply with streamlining requirements of Decision 916 and other DoD-imposed budget reductions, DCMC directed significant reductions to CAS staffing levels within the United States, from 21,320 personnel in FY 1991 to 16,478 personnel in FY 1995 (a 22.7 percent reduction). The true reduction to DCMC was 22.4 percent because 69 of the 21,320 positions were transferred to the International District and, therefore, remained within DCMC. However, DCMC did not impose the reductions on International District CAS offices. Furthermore, DCMC directed the reductions on CAS offices in the United States without a basis for determining appropriate staffing levels.

In FY 1995, DCMC began using resource estimators (developed by the Defense Logistics Agency Operations Research Office) as tools to identify what CAS office staffing levels should be. DCMC began using the resource estimators as a result of FY 1994 findings by the Inspector General, DoD, that DCMC did not have a consistent approach or process for determining and allocating appropriate resources to accomplish its mission. DCMC needed a consistent approach to effectively implement the streamlining requirements imposed by Decision 916 and future DoD budget reductions. However, the resource estimators could not be effectively applied to International District CAS offices. In addition, DCMC did not verify whether the International District initiated its own action to determine appropriate staffing levels for CAS offices outside the United States.

Staffing Reductions Not Imposed on the International District. Although DCMC imposed a 22.7 percent reduction to CAS staffing levels within the United States from FYs 1991 through 1995, DCMC imposed no reduction to International District staffing levels during that same period. Lacking a definitive method for determining appropriate staffing levels in the Pacific, DCMC accepted the International District explanation that CAS performed outside the United States was unique and not comparable to CAS performed within the United States and that work load was expected to increase through FY 1995. As demonstrated in Figure 2 and in earlier discussions on work load and staffing by country, work load in the Pacific did not increase as expected.

Recent Actions Taken by DCMC. Although appropriate staffing levels for CAS offices outside the United States were never determined, DCMC directed a 7 percent decrease in International District civilian personnel for FYs 1996 and 1997, based on similar decreases imposed on CAS offices in the United States. In a January 16, 1996, memorandum to International District and district commanders, DCMC outlined its intention to take a more active role in resource management. Specifically, the Commander, DCMC, directed the Resource Utilization Council (the Council) to baseline CAS office staffing levels by April 1996. The Council, established in April 1995, is a team of DCMC headquarters and District representatives that manages resource requirements from a command-wide perspective. The January 1996 memorandum directed the Council to establish baseline staffing levels by using the results of risk assessments and internal operations assessments, where available. The assessments will be used together with work load, performance, customer

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requirements, new work, and other significant factors that may affect staffing levels. The Council is responsible for managing available resources and for building a business case that supports resource requirements for DCMC.

Active Participation Is Essential. The Council's active participation in developing baseline staffing levels for Pacific CAS offices is essential to the establishment of effective and efficient staffing levels in the Pacific. The current DCMC resource management plan requires area office and district commanders to develop business cases based on work load, performance, risk assessments, and other significant factors that may affect staffing levels. The commanders then submit their developed business cases to the Council. The Council uses the business cases, as submitted, to recommend resource levels and reallocation. For the Pacific, however, the Council needs to perform a detailed review and analysis of work load and resources to ensure that appropriate staffing levels are established for Pacific CAS offices. A detailed review is necessary based on the following factors.

- o The International District submission of FY 1996 proposed staffing levels for CAS offices in the Pacific indicates that the International District did not seriously consider staffing reductions, such as those previously discussed in our audit results. For example, the International District proposed an FY 1996 organizational restructuring in the Pacific from four CAS area offices to one CAS area office. However, the overall plan results in the reduction of only two CAS offices and five (3.1 percent) full-time equivalent positions from the original 166 positions transferred by the Military Departments (Appendix C).

- o The contracts administered in the Pacific are primarily low in complexity, dollar value, and risk, and, therefore, do not warrant current staffing levels.

- o The International District cannot rely on existing management information systems to report work load. The System for Integrated Contract Management, initiated by the International District, has not been installed at CAS offices in the Pacific after more than 2 years in development.

- o The host-CAS agreement in Korea should significantly reduce the need for International District quality assurance personnel.

Also, DCMC should establish management controls and techniques to verify that the newly-developed staffing method for determining effective and efficient baseline staffing levels in the Pacific is used by the International District to determine future resource requirements.

Staffing Levels at Other International District CAS Offices. Based on the results of our review of CAS work load and staffing in the Pacific and considering the International District philosophy on required staffing levels and uniqueness of CAS operations outside the United States, the potential exists for staffing reductions at other International District CAS offices. DCMC should review and analyze work load and staffing at International District CAS offices outside the Pacific to determine appropriate staffing levels and reduce CAS offices that are not cost-effective.

Summary

When resources are scarce, contract administration functions with the least potential benefit should be reduced. Contracts in the Pacific are low dollar value, firm-fixed price, with little, if any, risk or payback. The unique issues that the International District cited had little, if any, effect on CAS resources in the Pacific. In light of current acquisition reform initiatives, DCMC should perform a review and analysis of CAS office work load and staffing in the Pacific. Based on results of the review, DCMC should direct the International District to close or reduce CAS offices that are not cost-effective to operate and, where feasible, require that the CAS function be performed on an itinerant basis. Specifically, DCMC could close or significantly reduce the CAS offices in Malaysia and Singapore and perform required quality assurance on an itinerant basis, thereby putting at least \$13.5 million to better use during FYs 1996 through 2001 (Appendix D).

Recommendations, Management Comments, and Audit Responses

Revised Recommendation. In response to management comments, we revised Recommendations 1.a. and 1.b. to clarify our intent that DCMC actively participate in determining appropriate staffing levels at International District CAS area offices by performing on-site reviews and analyses of work load and staffing.

1. We recommend that the Commander, Defense Contract Management Command, Defense Logistics Agency:

a. Perform an on-site review and analysis of work load and staffing at Defense Contract Management Area Operations offices in the Pacific to:

(1) Establish a definitive method for the Defense Contract Management Command to determine effective and efficient baseline staffing levels based on workload requirements and host-contract administration services agreements for Defense Contract Management Command-International.

(2) Streamline contract administration services resources in the Pacific based on workload requirements and implementation of host-contract administration services agreements in Korea.

(3) Eliminate contract administration services offices in the Pacific that are not cost-effective, and perform contract administration on an itinerant basis.

b. Perform an on-site review and analysis of work load and staffing at Defense Contract Management Command-International contract administration services offices outside the Pacific to determine appropriate baseline staffing levels and streamline contract administration services resources in accordance with Defense Management Report Decision 916.

c. Establish management controls and techniques to verify that the newly-developed staffing method, discussed in Recommendation 1.a.(1), is used by Defense Contract Management Command-International to determine future resource requirements.

Management Comments. Management concurred and stated that the DCMC Resource Utilization Council (the Council) recommended baseline staffing levels for every Defense Contract Management Area Operations office (area office) both inside and outside the United States. The Commander, DCMC, approved the baselines and issued them to the districts in May 1996. DCMC is developing a staffing model for CAS area offices in the International District. The International District model is being adapted from the staffing model currently used for area offices in the United States. Also, the International District is reorganizing from 13 area offices to 5 area offices. (Of the 13 area offices, 4 area offices are in the Pacific and will be reorganized to 1.) The staffing model and the reorganization will be completed by September 30, 1996.

Regarding establishment of management controls and techniques, management stated that procedures are in place to direct and verify implementation of staffing decisions. Specifically, the Council is responsible for recommending area office staffing levels to the Commander, DCMC, for approval. The Council is also responsible for overseeing implementation of resource decisions.

Audit Response. We believe that the current resource management process (discussed in Part III, page 59), is not effective for determining baseline staffing levels and streamlining CAS resources in the Pacific. The current process relies on area office and district commanders to identify their own staffing level reductions and to provide that information to the Council. Based on the results of our review of CAS work load and staffing in the Pacific and considering the International District FY 1996 proposed staffing levels and its philosophy on uniqueness of CAS operations outside the United States, we believe the current process will not identify potential staffing level reductions in the International District. As stated in the finding, we believe the Council needs to perform a detailed review and analysis of work load and resources to ensure that appropriate staffing levels are established for Pacific CAS offices and for other CAS offices in the International District. To clarify our intent, we revised Recommendations 1.a. and 1.b. to perform an on-site review and analysis of work load and staffing at area offices in the Pacific and throughout the International District.

Management's plan to reorganize the International District from 13 area offices to 5 area offices (4 area offices in the Pacific to 1 area office) does not meet the intent of the recommendation to eliminate offices in the Pacific that are not cost-effective and to perform CAS on an itinerant basis. For example, the proposed plan transfers the Kuala Lumpur area office functions to Atsugi, Japan.

However, offices in Kuala Lumpur and Singapore remain open with a small proposed reduction in staffing levels. We believe DCMC could close or significantly reduce CAS offices in Kuala Lumpur and Singapore and perform required quality assurance on an itinerant basis. In response to management's comments, we revised Recommendations 1.a. and 1.b to clarify our intent. Therefore, we ask that management comment on those recommendations in response to the final report. Management comments on the recommendation to establish management controls and techniques were fully responsive.

2. We recommend that the Commander, Defense Contract Management Command-International, Defense Contract Management Command:

a. Develop and issue specific instructions to all subordinate area offices on gathering and reporting management information system data through the new System for Integrated Contract Management.

b. Instruct the Kuala Lumpur area office not to perform quality assurance surveillance and source inspection on commercial item subcontracts that are the responsibility of prime contractors, unless such services are written into the contract with a corresponding price reduction or unless commands have a compelling reason for Government oversight in accordance with Defense Logistics Agency Manual 8000.5, "One Book."

c. Establish management controls and techniques to verify that subordinate area offices accurately report required management information system data through the new System for Integrated Contract Management in accordance with instructions established through implementation of Recommendation 2.a.

Management Comments. Management concurred and stated that the International District developed specific guidance and established management controls for the System for Integrated Contract Management that were issued in a users manual in November 1995. Management also stated that, in May 1996, instructions were issued to the Kuala Lumpur area office to discontinue quality assurance surveillance and source inspection on commercial item subcontracts in accordance with Defense Logistics Agency Manual 8000.5, "One Book."

Management Comments on the Potential Monetary Benefits and Audit Response

Management Comments. Management disagreed that \$13.5 million could be put to better use over 6 years by reducing CAS offices in the Pacific. Management stated that it could not verify the computation of the potential monetary benefits and that the dollar amount was out of proportion with the dollars expended in the Pacific.

Audit Response. We believe that \$13.5 million in potential monetary benefits for the Pacific is a conservative estimate. As stated in the finding, our estimate represents the amount that DCMC could put to better use during FYs 1996 through 2001 if it closed or significantly reduced CAS offices in Kuala Lumpur and Singapore alone and performed required quality assurance for those offices on an itinerant basis. Our estimate does not include potential monetary benefits that should result when the International District completes its reorganization or when DCMC reduces staffing levels at other Pacific CAS offices based on work load requirements and host-CAS agreements. For example, as previously discussed, under the host-CAS agreement between the Defense Logistics Agency and the Korean Ministry of Defense, the International District should be able to eliminate most of the 26 quality assurance positions (Appendix E) that were assigned to Korea for FY 1996.

Our estimate of \$13.5 million (Appendix D) is based on annual operating costs for the Kuala Lumpur and Singapore offices obtained from International District fiscal reports. In addition, we included other DoD costs that were not accounted for in the fiscal reports, such as permanent change of station costs and military labor costs including benefits. We believe that inclusion of those costs more accurately reflects the actual cost of performing contract administration in Kuala Lumpur and Singapore.

Both the reorganization and the staffing model, once completed, should result in significant staffing level reductions at CAS offices in the Pacific and throughout the International District. We ask that management reconsider its position on the potential monetary benefits in response to the final report and provide the dollar value of funds in the Pacific that can be put to better use as a result of completion of both the reorganization and the staffing model.

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Part II - Additional Information

Appendix A. Scope and Methodology

Audit Methodology

To answer the specific audit objective concerning whether contracting officers properly delegated contracts to the International District in accordance with Decision 916, we reviewed procedures Military Department contracting centers used to identify contracts for delegation.

We extracted from the DD-350 data base (data base of all DoD contracts exceeding \$25,000) a list of all active contracts performed in the Pacific as of February 1995. The extract consisted of 19,309 contract records valued at approximately \$7.3 billion. Of the 19,309 contracts, 16,589 (85.9 percent), valued at \$5.7 billion, were performed in the seven countries where International District CAS offices are located. The other 14.1 percent of the contracts were administered in countries that have no CAS offices. The table below shows the distribution of contracts throughout the Pacific.

Distribution of Contracts Administered in the Pacific		
<u>Country</u>	<u>Number of Records</u>	<u>Contract Value (millions)</u>
Hawaii	7,396	\$2,057.0
Japan	5,849	2,192.0
Korea	2,893	1,290.7
Malaysia/ Singapore	379	135.3
Australia/ New Zealand	<u>72</u>	<u>63.5</u>
Subtotal	16,589	\$5,738.5
Other Pacific countries	<u>2,720</u>	<u>1,551.3</u>
Total	19,309	\$7,289.8

We selected five contracting centers operated by the Military Departments that procured 30.7 percent of the total value of contracts performed in the Pacific. The contracting centers were located at:

- o Army Contracting Center, Seoul, Korea;
- o Navy Regional Contracting Center, Singapore;

- o Yokota Air Base, Japan;
- o Yokosuka Naval Air Station, Japan; and
- o Kadena, Okinawa.

We visited those contracting centers from February 24 through May 11, 1995, and reviewed documentation on active contracts that those centers administered. We identified no contracts administered at the contracting centers that should have been delegated to the International District.

Audit Scope

Contract Administration Resources. In response to the objective on whether the International District effectively and efficiently used its resources, we reviewed FYs 1990 through 1995 workload requirements data from Pacific CAS offices and evaluated the staffing procedures of the International District. We also evaluated DCMC and International District implementation of Decision 916 and compliance with Defense Logistics Agency Manual 5810.1.

We visited 7 of the 11 International District area and subordinate offices in the Pacific, interviewed key personnel, and obtained contract, budget, and staffing data from each office. In Japan, we analyzed the log of contracts (delivery orders) on hand, opened, and closed during FY 1995. In Malaysia and Singapore, we analyzed records of the proposals for and negotiation of over and above work requests for April 1994 through October 1995. In Korea, we performed a limited review and analysis of CAS functions. We compared the data gathered at the Pacific offices with International District averages and evaluated differences in staffing and work load.

Limitations to Audit Scope. We visited the subordinate office in Hawaii (under the Japan area office). Because of time and logistical constraints, we were unable to determine whether DoD contracts requiring administration by the International District were properly delegated. However, we were able to obtain management information data from the subordinate office to analyze the efficiency and effectiveness of their use of contract administration resources.

Use of Computer-Processed Data. We performed limited tests on computer-processed data used during the audit. We obtained management information system data that were reported to the International District and DCMC by the Pacific area offices. In Japan and Korea, we verified workload logs and statuses of contracts on hand to totals being reported in the management information system. To the extent that we reviewed the computer-processed data, we concluded that the data were not sufficiently reliable. Therefore, we reviewed contract files and other source documents at the area offices to determine the accurate data.

Appendix A. Scope and Methodology

Audit Period, Standards, and Locations. We performed this economy and efficiency audit from December 1994 through February 1996. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. Appendix H lists the organizations we visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of management controls used by DCMC to verify that the International District efficiently and effectively used its CAS resources in the Pacific. We also reviewed implementation of the management control program at International District headquarters, Dayton, Ohio. Specifically, we reviewed FYs 1994 and 1995 annual statements of assurance and the 5-year management control plans for FYs 1993 through 1997. We also reviewed FYs 1994 and 1995 annual statements of assurance and the 5-year management control plans for FYs 1993 through 1997 at the Pacific area offices. We reviewed the adequacy of management controls for reporting work load and determining staffing requirements. We also reviewed the self-evaluation by management of those controls.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38, for DCMC and the International District. DCMC management controls over resources were not adequate to ensure that the International District effectively and efficiently used CAS resources in the Pacific. Specifically, DCMC did not provide the International District with definitive methods for determining appropriate staffing levels or provide adequate oversight of resource management responsibilities assigned to the International District. The International District did not establish specific management control techniques and procedures to verify that subordinate offices accurately reported management information needed to evaluate work load and determine appropriate staffing levels.

We could not determine the monetary benefits associated with establishing appropriate staffing levels at International District CAS offices and ensuring accurate reporting of management information data. Implementing the report recommendations, however, should provide DCMC and the International District with information necessary to make cost-effective decisions regarding future staffing levels. Recommendations 1.c. and 2.b., if implemented, will assist in correcting the material management control weaknesses. Potential

benefits resulting from implementation of the recommendations are in Appendix G. Copies of the report will be provided to senior officials in charge of management controls for Defense Logistics Agency.

Adequacy of Management's Self-Evaluation. Although changes and improvements for implementing management control programs were evident at International District headquarters, management's self-evaluation was not adequate. Specifically, the International District identified both the resource management process and the software and data applications process as assessable units. However, the International District incorrectly assigned a low risk rating to both areas, and the International District reviewing officials did not sign either of the documents as evidence of review. The low-risk rating in these areas contributed to the International District not identifying the material weaknesses discussed in the report. DCMC identified the resource management process as an accessible unit and established management control techniques for providing oversight of resources assigned to International District CAS offices. However, DCMC did not verify that established management control techniques were being used. Specifically, DCMC did not perform required periodic reviews of the International District resource determination process. As a result, DCMC did not identify or report the material weakness identified during the audit.

Appendix B. Summary of Prior Audits and Other Reviews

Inspector General, DoD

Inspector General, DoD, Report No. 96-114, "The Delegation of Contract Administration to Defense Contract Management Command International - Europe and the Middle East," May 8, 1996. The report states that contracting organizations appropriately delegated contract administration to Defense Contract Management Command International (International District) offices in accordance with Federal Acquisition Regulations. However, International District offices could not readily account for all contracts delegated to them for administration because their contract data and contract records were incomplete and inaccurate. The report made no recommendations because the International District was implementing a new computer system, the System for Integrated Contract Management, that was expected to improve contract accountability.

Inspector General, DoD, Report No. 96-067, "Quality Surveillance Program for Fuels," February 7, 1996. The report states that the Defense Fuel Supply Center (Supply Center) quality surveillance program for fuels ensured that fuel quality met applicable specifications when provided to the end user for the fuel deliveries, laboratory reports, and complaints audited. Any deficiencies causing fuel quality to fail to meet applicable specifications were corrected from October 1993 through June 1995. The Supply Center and the Military Department organizations that were visited satisfactorily maintained the Supply Center quality surveillance program when physically possessing fuel at storage facilities under their cognizance. However, minor weaknesses were noted relating to fuel sampling and testing procedures that the Supply Center and the Army Petroleum Center used. Because the Supply Center and the Army took corrective action on the weaknesses during the audit, the report contained no recommendations.

Inspector General, DoD, Report No. 95-166, "Defense Contract Management Command Management of Quality Assurance Resources," April 11, 1995. The report states that the Defense Contract Management Command did not effectively manage quality assurance specialists to adequately implement the In-Plant Quality Evaluation program. The report also states that the Command did not ensure that the accepted products were produced under reliable processes that would consistently result in a conforming product without detailed examination of the manufacturing processes. In addition, Command management did not establish an effective method to determine the number of quality assurance personnel needed to accomplish the contract quality assurance program. Finally, management controls were not adequate to hold the Command management and staff accountable for effective implementation of the In-Plant Quality Evaluation program.

The report recommends that the Defense Logistics Agency (DLA) establish a system of accountability and measurement over implementation of process-oriented quality assurance. The report further recommends that DLA require quality assurance specialists to fully implement process-oriented quality

Appendix B. Summary of Prior Audits and Other Reviews

assurance and require supervisors to review and document the improvements needed to identify, proof, and reproof manufacturing processes. In addition, the report recommends that DLA establish standard performance plans for quality assurance specialists and supervisors to hold them responsible for fully implementing specific process-oriented quality assurance functions. Lastly, the report recommends that quality assurance specialists document the estimated work required to perform process-oriented quality assurance on each contract assigned, and that the Command districts use those work estimates as the basis for future budget requests.

DLA concurred with recommendations to define critical manufacturing processes and to develop quality assurance manpower estimates and corresponding budget estimates based on documented quality assurance work load. DLA agreed to amend policies and performance evaluations related to the recommendations for quality assurance specialists and implementation of process-oriented quality assurance. In addition, DLA agreed with the intent of the recommendation to measure performance or to base estimated work load on actual quality assurance tasks. DLA agreed to consider whether process-oriented quality assurance tasks should be factors in the resource allocation model currently being developed.

Inspector General, DoD, Report No. 94-INS-12, "Defense Contract Management Command," September 29, 1994. The inspection report states that based on DCMC achievements associated with all nine Defense Management Report Decision 916 goals, Decision 916 had been implemented. However, the report concludes that DCMC lacked a consistent manpower determination process.

The report recommends that the Under Secretary of Defense for Personnel and Readiness, in conjunction with the DoD Components, develop manpower requirements analysis methodologies that meet the needs of Component heads and the DoD as a whole and establish an oversight mechanism to ensure that those methodologies are used. The report further recommends that the Commander, DCMC, establish consistent analysis methodologies for determining staffing requirements, so that comparable functions throughout the Command are subject to the same analysis. In addition, the report recommends that the Under Secretary of Defense for Acquisition and Technology clearly define contract administration services program support in the Defense Federal Acquisition Regulation Supplement or another DoD-wide regulation.

The Under Secretary of Defense for Personnel and Readiness did not respond to the recommendation. DCMC has not provided enough information about the new workload and staffing models to determine whether the planned action is responsive to the recommendation. The Under Secretary of Defense for Acquisition and Technology concurred with the recommendation.

Inspector General, DoD, Report No. 92-012, "Administration of Contract Terminations for Convenience," November 13, 1991. The report states that DLA took an average of about 2 years to settle contracts terminated for convenience. In addition, DLA did not effectively manage the contract

Appendix B. Summary of Prior Audits and Other Reviews

terminations program. As a result, management lacked an effective basis to determine the resources needed to administer 6,200 contract terminations, valued at about \$6.4 billion.

The report recommends that the Director, DLA, establish specific standards and procedures to effectively administer contract terminations, develop management control objectives and techniques, perform a staffing study, and define management information reporting requirements. DLA generally concurred with the intent findings and agreed to implement the recommended actions.

Army Audit Agency

Army Audit Agency Report No. WR 92-756, "Damages Resulting From Collusive Bidding Practices on Security Guard Contracts, Eighth U.S. Army, Seoul, Korea," March 17, 1992. The report estimated that during a 9-year period, the Army incurred damages from \$7.1 million to \$14 million as a result of collusive bidding practices by security guard contractors. The variance between the estimates resulted from using two methods to calculate damages. Both methods were considered subjective and provided a reasonable basis for pursuing legal action against the contractor, as viewed by the auditors. Personnel from U.S. Army Korea Contracting Agency; Seventh Region, U.S. Army Criminal Investigation Command; and the U.S. Department of Justice were generally receptive to the Army Audit Agency conclusions.

Army Audit Agency Report No. WR 93-750, "Contracting for Guard Services Eighth U.S. Army, Seoul, Korea," October 16, 1992. The report states that the negotiated price of the security guard contract was excessive because the contractor overstated base wages in the cost and pricing data that it gave to the Korea Contracting Agency. And, during contract award, the Korea Contracting Agency did not verify the accuracy of the data, even though the contractor had not certified its accuracy. The contract was overpriced by about \$12.1 million over a 34-month period.

The report directed the Korea Contracting Agency to identify the amount of overpayments during FYs 1991 and 1992 and to establish, in coordination with the finance and accounting officer, recoupment measures to ensure that all overpayments and applicable interest charges were collected. The report instructed the finance and accounting officer to ensure that overpayments were offset against future payments, to initiate collection actions against the contractor if payments were not offset, and to seek relief, as appropriate, from the Comptroller General of the United States for liability on any overpayments not collected.

Finally, the report directed the Korea Contracting Agency to obtain revised cost and pricing data from the contractor based on the actual costs being incurred by the contractor and to advise the contractor of the Army's intent to continue the contract and award the FY 1993 option subject to revised cost and pricing data. The Korea Contracting Agency did not concur with the recommendations. The recommendations were mediated with the Assistant Secretary of the Army for Research, Development and Acquisition. The Assistant Secretary agreed with the Korea Contracting Agency and took no further action.

Appendix B. Summary of Prior Audits and Other Reviews

Army Audit Agency Report No. WE 90-6, "Audit of Acquisition and Contract Administration Eighth U.S. Army, Seoul, Korea," March 2, 1990. The report states that award procedures for contracts issued during the fourth quarter of FY 1988 were adequate. However, the Eighth Army needed to implement improvements in the areas of determining requirements, obtaining competition, determining fair and reasonable prices, monitoring contractors' performance, and processing small purchases. Actions taken to implement the Army management control program were adequate. The report estimated that the Government could avoid significant costs by adjusting the requirements in 13 of the 50 contracts reviewed. In general, the report recommends that when requesting services, requiring organizations should perform more thorough reviews of contract requirements to provide more assurance that only valid requirements are obtained. The Command agreed with the findings and recommendations and stated that corrective action had been or would be taken.

Appendix C. Number of Positions Transferred by the Military Departments Compared With Existing Number of Full-Time Equivalent Positions

	<u>Transfer of Personnel¹</u>		<u>Existing Staffing²</u>		<u>Planned Staffing³ After Consolidation</u>	
	<u>Number of Offices</u>	<u>Number of Personnel</u>	<u>Number of Offices</u>	<u>Number of Personnel</u>	<u>Number of Offices</u>	<u>Number of Personnel</u>
Korea	4	70	6	66	2	41
Malaysia	4	35	2	28	2	22
Australia	2	19	2	17	2	16
Japan	<u>2</u>	<u>42</u>	<u>2</u>	<u>56</u>	<u>4</u>	<u>82</u>
Total	12	166	12	167	10	161

Note: The International District consolidation plan reduces Pacific personnel by six (3.7 percent) positions from FY 1996 staffing and by five (3.1 percent) positions from the initial transfer.

¹The transfer of personnel to International District CAS offices in the Pacific through May 1993.

²Staffing that existed at the time of our audit (as of September 5, 1995).

³FY 1996 staffing plan submitted by the International District to DCMC.

Appendix D. Area Office Operating Budgets

<u>Description</u>	<u>Kuala Lumpur and Singapore</u>		<u>Korea</u>	<u>Japan</u>
Costs Per DCMC-I				
Operating Budget	\$1,763,909		\$2,669,521	\$1,896,729
Less: Living Quarters Allowance	0		269,167	0 ¹
Subtotal	1,763,909		2,400,354	1,896,729
Costs Calculated by Auditors				
Add: Living Quarters Allowance ²	0		636,388	770,928
Military Labor and Benefits ³	430,923		1,023,094	991,263
Civilians Permanent Change of Station (PCS) Costs ⁴ (\$10,000 x number of civilians)	160,000		310,000	240,000
Less: Fuel Specialist(s)	100,424		393,285	0
Total Personnel and Operating Costs	\$2,254,408		\$3,976,551	\$3,898,920
	x 6			
Estimated Funds Put To Better Use⁵	\$13,526,448			

¹Cost breakout was not available for Japan.

²Based on locality allowance by employee grade/rank obtained from Standardized Regulations (Government Civilians, Foreign Areas) and Joint Federal Travel Regulations (used for military personnel).

³Based on Military Air Force-Wide Standard Composite Rates by Grade and includes permanent change of station (PCS) costs (Air Force Instruction 65-503).

⁴Based on average overseas PCS costs of \$25,000 (\$25,000 x 2 Round Trips = \$50,000/5 years = \$10,000 average per year). Kuala Lumpur and Singapore have 16 civilians, Korea has 31 civilians, and Japan has 24 civilians.

⁵Estimated costs that could be put to better use during FYs 1996 through 2001 by closing the offices in Kuala Lumpur and Singapore and by performing quality assurance on an itinerant basis.

Appendix E. Staff Levels of Pacific Area Offices and Breakdown of Positions

Position	Total	Japan ¹	Korea ¹	Kuala Lumpur ²	Australia ²
Indirect Labor					
Commander/resident in charge		1	1	1	1
Deputy/chiefs (1101s)		5	5	1	2
Secretarial		5	5	3	3
Mission support ³		8	9	5	4
Safety (018)		1	1	1	0
Program integrators		4	0	0	0
Supply Program Management (2003)		2	1	0	1
Procurement (1106)	—	3	2	1	0
Subtotal	76	29	24	12	11
Direct Labor					
ACO/contract specialists (1102s)		4	8	2	1
Property administration (1103s)		1	4	2	1
Quality assurance specialists (1910s)		17	26	9	3
Industrial specialists (1150s)		4	3	3	1
Flight Operations	—	1	1	0	0
Subtotal	91	27	42	16	6
Total	167⁴	56	66	28	17

¹Number of employees are based on documents obtained from the individual offices and site visits to Japan and Korea.

²We did not visit the area office in Australia. The numbers for that location are based on information provided by the International District.

³Mission support includes budget, benefits, accounting, supplies and equipment, computer specialists, and other administrative support functions.

⁴As of September 1995.

Appendix F. Pacific Staffing and Work Load

International District Office	Number of Personnel on Board ³	Number of Personnel Authorized ³	Number of Prime Contracts ²	Operating Cost ¹ (millions) [A]	Value of Contracts ² (millions) [B]	Cost Per Contract Dollar to Administer [A÷B]
Kuala Lumpur and Singapore	28	29	14	\$ 2.3	\$ 59.4	
Less: Fuels ⁴	(1)	(1)	(6)	(0.1)	(47.2)	
Subcontractor parts ⁵	<u>(0)</u>	<u>(0)</u>	<u>(3)</u>	<u>(0.0)</u>	<u>(8.8)</u>	
Subtotal Malaysia	27	28	5	\$2.2	\$ 3.4	\$.65
Kimhae	25	26	9	\$1.7	\$15.3	
Seoul	12	12	8	0.8	1.7	
Pusan	11	11	0	0.7	0.0	
Itinerant (including Changwon)	12	12	6	0.8	6.9	
Taegu	6	7	7	0.4	200.2	
Less: Fuels ⁴	<u>(6)</u>	<u>(7)</u>	<u>(7)</u>	<u>(0.4)</u>	<u>(200.2)</u>	
Subtotal Korea	60	61	23	\$4.0 ⁶	\$ 23.9	\$0.17
Subtotal Japan ⁷	52	52	5	\$3.9	\$ 14.4	\$0.27
Total	139	141				
Additional Labor ⁸	<u>28</u>	<u>31</u>				
Total Labor	167	172				

¹Average cost for FY 1995 based on number of personnel per office.
²Contracts in Malaysia as of March 31, 1995, in Korea as of September 30, 1995, and administered in Japan during FY 1995.
³As of September 5, 1995.
⁴Personnel, dollar value, and operating costs associated with fuels contracts were deducted to more accurately reflect operating costs dedicated to the actual contract administration work load.
⁵Unnecessary quality assurance on subcontractor parts was deducted because it is not a valid work requirement for the area office in Kuala Lumpur.
⁶Adjusted for rounding error.
⁷Does not include the subordinate office in Hawaii.
⁸Addition of personnel in Hawaii and Australia and fuels personnel previously deducted.

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.a.(1)	Economy and Efficiency. Determines appropriate staffing levels in the Pacific.	Nonmonetary.
1.a.(2)	Economy and Efficiency. Establishes a baseline for contract administration resources in the Pacific based on workload requirements.	Undeterminable. Amount of benefits could not be quantified pending results of DCMC review and baseline establishment.
1.a.(3)	Economy and Efficiency. Eliminates or reduces contract administration offices that are not cost-effective.	Estimated \$10.9 million in DLA Operation and Maintenance funds and \$2.6 million in Military Pay funds put to better use during FYs 1996 through 2001.
1.b.	Economy and Efficiency. Establishes appropriate staffing levels for International District contract administration offices outside the Pacific.	Undeterminable. Amount is subject to results of DCMC review and analysis.
1.c.	Management Controls. Verifies whether future staffing levels are appropriate.	Nonmonetary.
2.a.	Economy and Efficiency. Ensures accurate and consistent reporting of management information from CAS offices.	Nonmonetary.

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
2.b.	Economy and Efficiency. Prevents duplicative and unnecessary quality assurance efforts.	Undeterminable. The benefits resulting from elimination of unnecessary quality assurance cannot be quantified.
2.c.	Management Controls. Establishes management controls and techniques to verify accuracy of management information system data.	Nonmonetary.

Appendix H. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Deputy Under Secretary of Defense for Maintenance, Policy, Programs, and
Resources, Washington, DC
Assistant to the Secretary of Defense (Economic Security), Industrial Capabilities,
Washington, DC

Department of the Army

U.S. Army Pacific, Fort Shafter, HI
Army Materiel Command, Alexandria, VA
Aviation Troop Command, St. Louis, MO
Security Assistance Command, New Cumberland, PA
Information Systems Command, Fort Huachuca, AZ
1st Signal Brigade, Yongsan, Republic of Korea
Eighth U.S. Army, Yongsan, Republic of Korea
U.S. Army Contracting Command, Yongsan, Republic of Korea
Auditor General, Department of the Army, Washington, DC
Army Audit Agency, Yongsan, Republic of Korea

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller),
Washington, DC
U.S. Pacific Fleet, Pearl Harbor, HI
Fleet Industrial Supply Center, Yokosuka, Japan
Fleet Industrial Supply Center, Pearl Harbor, HI
Naval Air Pacific Repair Activity, Atsugi, Japan
Officer in Charge of Construction, Far East, Yokosuka, Japan
Naval Regional Contracting Center, Singapore
Naval Investigative Service, Yokosuka, Japan

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller),
Washington, DC
Air Logistics Center, Hill Air Force Base, UT
Air Logistics Center, Kelly Air Force Base, TX
Air Logistics Center, Robins Air Force Base, GA
Air Logistics Center, Tinker Air Force Base, OK
Air Logistics Center, Wright-Patterson Air Force Base, OH

Department of the Air Force (cont'd)

Pacific Air Force Command, Hickam Air Force Base, HI
Yokota Air Base, Yokota, Japan
374th Contracting Squadron, Yokota Air Base, Japan
18th Support Group, Kadena Air Base, Okinawa, Japan
18th Contracting Squadron, Kadena Air Base, Okinawa, Japan
Alaskan Command, Elmendorf Air Force Base, AK

U.S. Marine Corps

U.S. Marine Corps Forces Pacific, Pearl Harbor, HI

Unified Commands

U.S. Pacific Command, Honolulu, HI
U.S. Forces Japan, Yokota Air Base, Yokota, Japan

Other Defense Organizations

Defense Contract Audit Agency, Fort Belvoir, VA
Defense Contract Audit Agency, Western Region, CA
Defense Contract Audit Agency, Pacific Branch Office, Yokohama, Japan
Defense Contract Audit Agency, Korea Suboffice, Yongsan,
Republic of Korea
Defense Criminal Investigative Service, Alexandria, VA
Defense Finance and Accounting Service, Washington, DC
Defense Intelligence Agency, Washington, DC
Defense Logistics Agency, Fort Belvoir, VA
Defense Contract Management Command Headquarters, Fort Belvoir, VA
Defense Contract Management Command-International, Dayton, OH
Defense Contract Management Area Operations, Atsugi, Japan
Defense Contract Management Area Operations-Residency, Honolulu, HI
Defense Contract Management Area Operations, Pusan, Republic of Korea
Defense Contract Management Office, Kimhae, Republic of Korea
Defense Contract Management Operations-Residency, Yongsan,
Republic of Korea
Defense Contract Management Area Operations-Residency, Taegu,
Republic of Korea
Defense Contract Management Area Operations, Melbourne, Australia
Defense Contract Management Area Operations, Puerto Rico
Defense Contract Management Area Operations, Kuala Lumpur, Malaysia
Defense Contract Management Office, Singapore, Malaysia
Defense Fuel Supply Center, Fort Belvoir, VA
Defense Logistics Agency Pacific, Camp H.M. Smith, HI

Appendix H. Organizations Visited or Contacted

Non-Defense Federal Organizations

General Accounting Office, Washington, DC

Non-Government Organizations

Japan Aircraft Manufacturing Corporation, Limited

Appendix I. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Command

Commander in Chief, U.S. Pacific Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service

Other Defense Organizations (cont'd)

Director, Defense Logistics Agency
Commander, Defense Contract Management Command
Commander, Defense Contract Management Command- International
Commander, Defense Fuel Supply Center
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

15 JUN 1996


IN REPLY
REFER TO

DDAI

**MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE**

**SUBJECT: Draft Report on Contract Administration in the Pacific
SCF-0022**

Enclosed is our response to your request of 7 May 1996. Please call Dave Stumpf at
(703) 767-6266 for additional assistance.


JACQUELINE G. BRYANT
Chief, Internal Review Office

Encl w/att

cc:
AQBA
DCMDI-DI
DCMDI-R

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AUDIT TITLE: Contract Administration in the Pacific, SCF-0022

FINDING: Management of Contract Administration Resources in the Pacific. Contracting Officers generally delegated the administration of contracts in the Pacific to the International District in accordance with Decision 916. However, International District and DCMC officials did not take action in the Pacific to streamline CAS offices and to reduce overhead as required by Decision 916. Management did not take action because the International District did not effectively use workload indicators and other methods to determine resources required to administer the overseas contracts. In addition, the International District did not have reliable workload data to manage its resources and DCMC did not provide adequate oversight of the International District or establish management controls to ensure that CAS resources in the Pacific were efficiently used. As a result, the International District incurred excessive personnel and operating costs in the Pacific to administer contracts that were low in complexity and dollar value. DCMC could reduce CAS offices in the Pacific and put at least \$13.5 million to better use over the next 6 years.

DLA COMMENTS: Concur - with comment. As documented in the DoDIG Report No. 94-INS-12, Defense Contract Management Command, DCMC achieved all of the DMRD 916 goals. The report also found that although Manpower determination processes were implemented in each district, there was a lack of consistency among the districts. As a result, DCMC changed its resource determination process by shifting responsibility from districts to the Headquarters and established the Resource Utilization Council (RUC) to manage all Command resources. A staffing model was developed to apply consistent workload measures in staffing determinations. After the model was tested and evaluated it was used in setting CONUS contract administration office (CAO) staffing and is currently being adapted to address OCONUS offices. DCMCI CAO staffing was baselined by the RUC in April 1996. In the years prior to 1996, DCMCI staffing was increased or decreased according to customer needs and workload requirements. Since the establishment of DCMCI in September 1990, military services' offices that had been excepted or excluded under the DMRD 916 implementation were one-by-one consolidated into DCMCI. The inconsistency of the military services' resource determination methodology and the disruption of multiple consolidations over the years since 1990 have created many challenges in developing and applying a staffing methodology to DCMCI CAOs. DCMC has remedied these inconsistencies with the establishment of the RUC.

Defense Logistics Agency Comments

In regard to the DODIG's claim that \$13.5 million (over 6 years) could be generated by reducing CAS offices in the Pacific, we are unable to verify its computation, it appears to be out of proportion with the dollars expended in the Pacific. We therefore disagree with that assertion of the finding.

Internal Management Control Weakness:

(x) Concur; weakness will be reported in the DCMDI Annual Statement of Assurance

ACTION OFFICER: Regina Bacon, AQBA

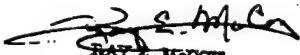
PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Daye Stumpf, DDAI, 767-6266

Copy, DDAI, 6 Apr 96

DLA APPROVAL:

JUN 8 1996


RAY E. MCCOY
Major General, USA
Principal Deputy Director

Final Report
Reference

Revised

AUDIT TITLE: Contract Administration in the Pacific, SCF-0022

RECOMMENDATION 1.a: Recommend that the Commander, Defense Contract Management Command (DCMC), Defense Logistics Agency, perform a review and analysis of work load and staffing at Defense Contract Management Area Operations offices in the Pacific to:

(1) Establish a definitive method for the DCMC to determine effective and efficient baseline staffing levels based on workload requirement requirements and host-contract administration services agreements for Defense Contract Management Command-International (DCMCI).

(2) Streamline contract administration services resources in the Pacific based on workload requirements and host-contract administration services agreements in Korea.

(3) Eliminate contract administration services offices in the Pacific that are not cost-effective by performing contract administration on an itinerant basis.

DLA COMMENTS: Concur. The DCMC Resource Utilization Council (RUC) recommended staffing baselines for every CONUS and OCONUS CAO. The baselines were approved by the Commander, DCMC, and issued to Districts in May 1996.

DCMC is in the process of developing a staffing model for DCMCI CAOs by adapting the staffing model currently used for CONUS offices.

DCMCI CAOs are in the process of reorganization. When the reorganization is complete, DCMCI will have consolidated the current 13 CAOs down to 5.

DISPOSITION:

(x) Action is Ongoing. Estimated completion Date: Baseline is Complete, Staffing model and DCMCI reorganization by 30 Sept 96.

ACTION OFFICER: Regina Bacon, AQBA

PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Dave Stumpf, DDAI, 767-6266

for, DDAI, 6 Jan 96

DLA APPROVAL:

APR 8 1996

[Signature]
REGINA BACON
Deputy, DCMC
Defense Contract Management Command
Defense Logistics Agency

Defense Logistics Agency Comments

Final Report
Reference

Revised

AUDIT TITLE: Contract Administration in the Pacific, 5CF-0022

RECOMMENDATION 1.b: Recommend that the Commander, Defense Contract Management Command (DCMC), Defense Logistics Agency, review and analyze work load and staffing at DCMCI contract administration services offices outside the Pacific to determine appropriate baseline staffing levels and streamline contract administration services resources in accordance with Defense Management Report Decision 916.

DLA COMMENTS: Concur. The DCMC Resource Utilization Council (RUC) recommended staffing baselines for every CONUS and OCONUS CAO. The baselines were approved by the Commander, DCMC, and issued to Districts in May 1996.

DCMC is in the process of developing a staffing model for DCMDI CAOs by adapting the staffing model currently used for CONUS offices.

DCMDI CAOs are in the process of reorganization. When the reorganization is complete, DCMDI will have consolidated the current 13 CAOs down to 5.

DISPOSITION:

(x) Action is Ongoing. Estimated completion Date: Baseline is complete, Staffing model and reorganization: 30 Sep 96

ACTION OFFICER: Regina Bacon, AQBA, 767-2459

PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Dave Stumpf, DDAI, 767-6266

Stumpf, DDAI, 5 June 96

DLA APPROVAL:

[Signature]
DAVE MCCOY
Major General, USA
Principal Deputy Director

JUN 8 1996

AUDIT TITLE: Contract Administration in the Pacific, SCF-0022

RECOMMENDATION 1.c: Recommend that the Commander, Defense Contract Management Command (DCMC), Defense Logistics Agency, establish management controls and techniques to verify that the newly-developed staffing method, discussed in Recommendation 1.a.(1), is used by DCMCI to determine future resource requirements.

DLA COMMENTS: Concur. DCMC's Resource Utilization Council (RUC) is responsible for recommending CAO staffing levels to the Commander, DCMC, for his approval. The RUC is also responsible for overseeing implementation of resource decisions. Procedures are in place to direct and verify implementation of staffing decisions.

DISPOSITION: Considered Complete

ACTION OFFICER: Regina Bacon, AQBA

PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Dave Stumpf, DDAI, 767-6266

Boyd, DDAI, 5 June 94

DLA APPROVAL:

G. E. McCon
Major General, USA
Principal Deputy Director

ATTACHMENT

Defense Logistics Agency Comments

AUDIT TITLE: Contract Administration in the Pacific, 5CF-0022

RECOMMENDATION 2.a: Recommend that the Commander, Defense Contract Management Command-International (DCMCI), Defense Contract Management Command, develop and issue specific instructions to all subordinate area offices on gathering and reporting management information system data through the new System for Integrated Contract Management.

DLA COMMENTS: Concur. Instructions were issued in DCMCI's SICM Manual, Nov 1995.

DISPOSITION: Considered Complete


ACTION OFFICER: Jeff Webb, DCMCI-R

PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Dave Stumpf, DDAI, 767-6266

Buget, DDAI, 5 June 96

DLA APPROVAL:


RAY E. MCCOY
Major General, USA
Principal Deputy Director

Attachment

AUDIT TITLE: Contract Administration in the Pacific, 5CF-0022

RECOMMENDATION 2.b: Recommend that the Commander, Defense Contract Management Command-International (DCMCI), Defense Contract Management Command, instruct the Kuala Lumpur area office not to perform quality assurance surveillance and source inspection on commercial items subcontracts that are the responsibility of prime contractors, unless such services are written into the contract with a corresponding price reduction or unless commands have a compelling reason for Government oversight in accordance with Defense Logistics Agency Manual 8000.5, "One Book."

DLA COMMENTS: Concur. Instructions were issued in May 1996.

DISPOSITION: Considered Complete

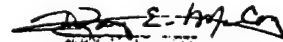
ACTION OFFICER: Jeff Webb, DCMDI-R

PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Dave Stumpf, DDAI, 767-6266

Sign, DDAI, 5 J 96

DLA APPROVAL:


Major General, USA
Principal Deputy Director

JUN 8 1996

ATTACHMENT

Defense Logistics Agency Comments

AUDIT TITLE: Contract Administration in the Pacific, SCF-0022

RECOMMENDATION 2.c: Recommend that the Commander, Defense Contract Management Command-International (DCMCI), Defense Contract Management Command, establish management controls and techniques to verify that subordinate area offices accurately report required management information system data through the new System for Integrated Contract Management in accordance with instructions established through implementation of Recommendation 2.a.

DLA COMMENTS: Concur. Instructions were issued in DCMCI's SICM Manual, Nov 1995.


DISPOSITION: Considered Complete

ACTION OFFICER: Jeff Webb, DCMCI-R

PSE APPROVAL: Mr. Gary Thurber, Deputy, DCMC

COORDINATION: Dave Stumpf, DDAI, 767-6266
Report, DDAI, 5 June 96

DLA APPROVAL:


DAVE E. MCCOY
Major General, USA
Principal Deputy Director

ATTACHMENT



IN REPLY
REFER TO AQBA

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221



JAN 16 1996

MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT DISTRICTS
COMMANDER, DEFENSE CONTRACT MANAGEMENT COMMAND
INTERNATIONAL
HQ AQ EXECUTIVE DIRECTORS
DIRECTOR, SPECIAL PROGRAMS

SUBJECT: DCMC Resource Management Process

The Resource Utilization Council (RUC) is the means for managing our resources. It is imperative during this period of downsizing that we speak with one voice.

All resource issues, whether as a result of risk assessments, performing Early CAS, new workload requirements, reinvention laboratories, FEDCAS, or other initiatives, will be addressed by the RUC. The RUC is made up of a team of DCMC Headquarters and District representatives that manages resource requirements from a Command-wide perspective. It is the duty of the RUC to manage resources down to the CAO level and to manage total Command resource levels across the Program Objective Memorandum (POM) years. It is the duty of the RUC to manage our available resources and to build a business case supporting the resource requirements of the Command. All resourcing decisions flow through the RUC to the Commander, DCMC.

I have directed the RUC to baseline CAO staffing levels by April 1996. The baseline will be established by utilizing the results of risk assessments and Internal Operations Assessments, where available, together with workload, performance, customer requirements, new work, and other significant factors which may impact staffing levels. A summary of the RUC roles and responsibilities, and a flow chart of the RUC process are at attachments 1 and 2.

Your support, participation, and communication of DCMC's resource requirements process through the RUC is critical to DCMC's success in mission performance.

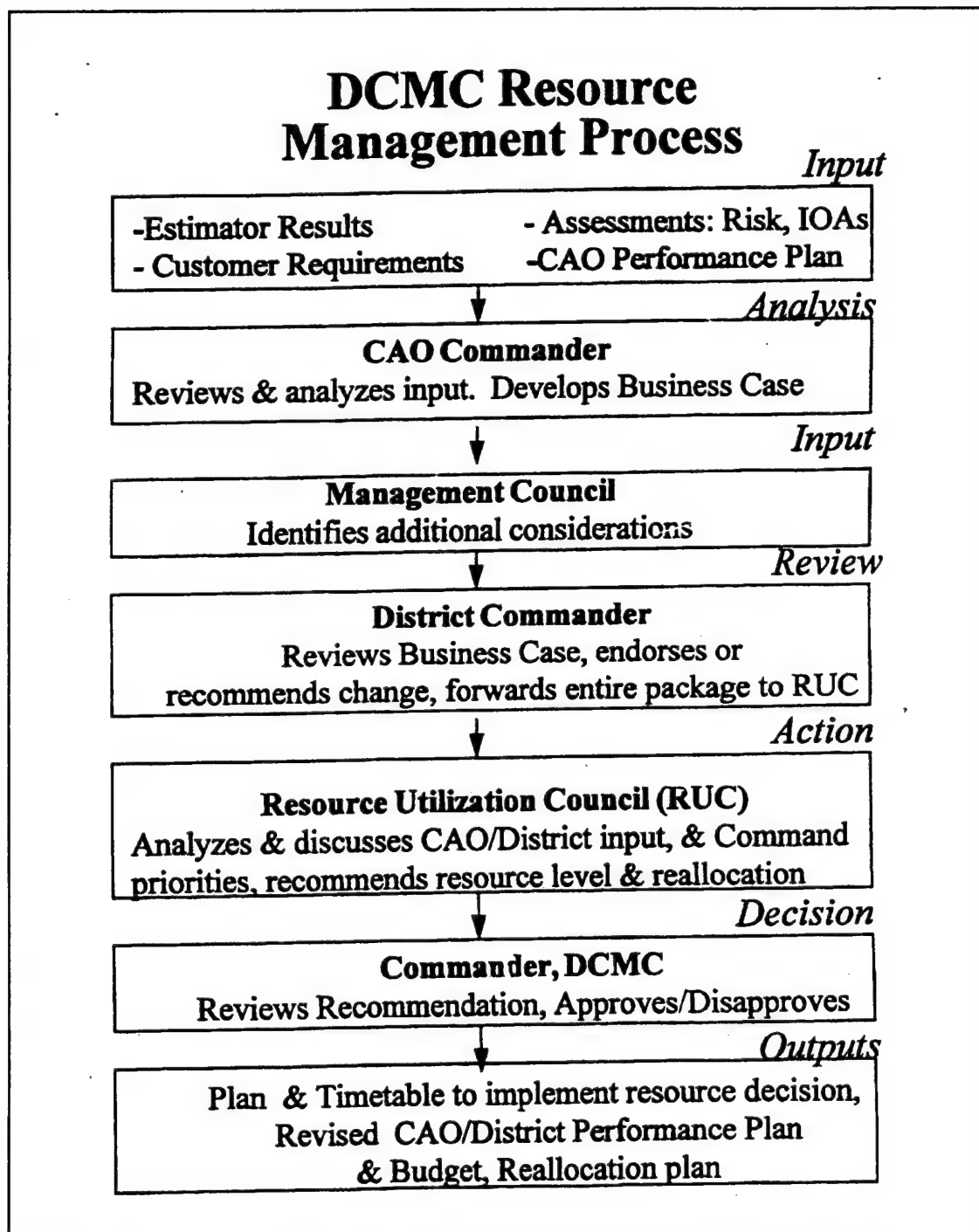
ROBERT W. DREWES
Major General, USAF
Commander

Attachments

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**Defense Contract Management Command
Resource Management Process
Roles and Responsibilities**

The HQ DCMC RUC is chaired by the Executive Director, Business Management. Members are the Executive Director, Contract Management Policy; Chief, Business Office; a representative of the Office of the Comptroller; Defense Contract Management District Deputies and Deputy, DCMC International. The President of the DLA Council of AFGE Locals, or his representative, participate in the RUC meetings. The purpose of the RUC is to manage Command resources down to the CAO level and across Budget and POM years. It is the duty of the RUC to manage our available resources and to build a business case of the resource requirements of the Command. The RUC reviews and approves DCMC policies on Program Objective Memorandum (POM) preparation and presentation; and budget formulation, development and execution; reviews and validates near and long-term workload and resource forecasting; analyzes the results of various resourcing tools; sets baseline levels of CAO resources; and makes resourcing recommendations to the Commander, DCMC. All resourcing decisions flow through the RUC to the Commander, DCMC.

CAO Commanders develop submissions through their District Commander, to the RUC as required.

District Commanders validate CAO submissions and amend the submission supplement with their perspective on significant issues. District Deputies serve as members of the RUC and actively participate in the RUC process.

Management Councils are afforded the opportunity to provide additional information to be included in the submission, such as new requirements, unique attributes, or customer concerns.

Staff support is provided by the Business Office (AQBA).

Process:

- The RUC starts the process by updating the resource estimators, and compiling results of risk assessments, IOAs, together with workload performance, and other pertinent data.
- The CAO Commanders prepare a Business Case to be submitted to the RUC. The Business Case includes an analysis of current and

future workload, descriptions of customer requirements and unique missions, and an implementation plan, to include a timetable.

- The Business Case is provided to the CAO Management Council. The Council may add new requirements, unique attributes and customer concerns.
- The Business Case is provided to the District Commander. The District Commander may endorse the Business Case or recommend changes and submit the entire package (CAO, Management Council and District inputs) to the RUC. The District Commander may also recommend how any excess resources should be reallocated, i.e., applied against the glideslope, new work, or high risk areas.
- The RUC reviews the Business Case, deliberates on how the resource needs of the Command can best be met, and makes recommendations to the Commander, DCMC, for his approval.
- Outputs: Current and projected staffing for every CAO; plan and timetable for where, how, and when staffing changes occur; revised performance plans; and budgets.
- This process will occur once a year or more frequently when triggered by changes in workload, risk, customer requirements, etc.



IN REPLY
REFER TO

DCMDI

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT DISTRICT INTERNATIONAL
8725 JOHN J. KINGMAN ROAD, SUITE 3221
FT. BELVOIR, VIRGINIA 22060-6221

May 30, 1996


MEMORANDUM FOR Lt Col Kelly Mosely, USAF
Commander, DCMD Kuala Lumpur

SUBJECT: Contract Administration

Reference Inspector General, Department of Defense, Audit Report on Contract Administration in the Pacific (Project No. 5CF-0022) dated May 7, 1996.

Effective immediately, your organization will not perform quality assurance surveillance and source inspection on commercial item subcontracts that are the responsibility of prime contractors, unless such services are written into the contract with a corresponding price reduction or unless commands have a compelling reason for Government oversight in accordance with Defense Logistics Agency Manual 8000.5. "One Book."

Any questions concerning this directive can be addressed to Mr. John Zorich, DCMDI-O or the undersigned.


DENNIS L. WRIGHT
CAPT. SC, USN
Commander

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Contract Administration in the Pacific

B. DATE Report Downloaded From the Internet: 11/23/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 11/23/99

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